

PAKISTAN



Textile Exports

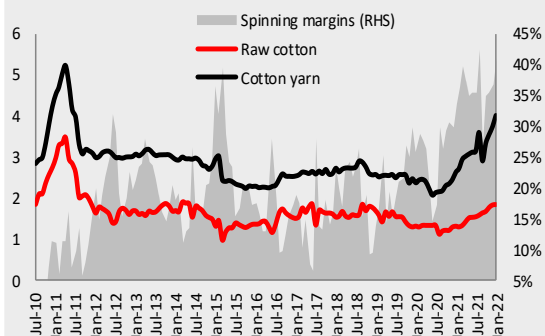
US\$ mn	7MFY22	7MFY21	YoY
Cotton yarn	688	486	41%
Cotton cloth	1,352	1,086	24%
Knit wear	2,888	2,175	33%
Bed wear	1,924	1,614	19%
Ready made garments	2,163	1,773	22%
Others	1,919	1,631	18%
Total	10,933	8,766	25%

Source: PBS, Foundation Research, February 2022

US\$ mn	Jan-22	Jan-21	YoY	MoM
Cotton yarn	77	86	-10%	-27%
Cotton cloth	217	151	43%	15%
Knit wear	387	325	19%	-12%
Bed wear	264	219	21%	4%
Ready made garments	331	283	17%	-4%
Others	275	259	6%	6%
Total	1,552	1,323	17%	-4%

Source: PBS, Foundation Research, February 2022

Spinning margins sustaining at 11 year highs



Source: PBS, Foundation Research, February 2022

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Pakistan Textiles

Exports continue winning streak

Event

▪ Growth in textile exports continued their record breaking streak during Jan'22, up by 17% YoY (down 4% MoM) resulting in the 8th consecutive month of exports around or exceeding US\$1.5bn and cumulating into record 7MFY22 exports of US\$10.9bn, up 25% YoY. This is a continuation of the 11 month trend of double digit YoY growth in exports as the recovery continued to strengthen globally. Looking ahead, we are optimistic as export markets are projected to continue growing along with strong demand for Pakistani textiles given recent currency depreciation.

Impact

▪ **Jan'22 exports on upward trajectory:** During Jan'22, exports were up/down by 17/4% YoY/MoM. Exports of readymade garments were up/down by 17/4% YoY/MoM, knit wear were up/down by 19/12% YoY/MoM and bed wear were up by 21/4% YoY/MoM. Cotton cloth exports were up by 43/15% YoY/MoM and cotton yarn were down by 10/27% YoY/MoM.

▪ **Rise in value added exports:** In 7MFY22, exports of readymade garments increased by 22% YoY as quantity exported was up by 21% YoY (prices up by 1% YoY). Bed wear exports increased by 19% YoY as quantity was up by 17% YoY (prices up by 2% YoY). Knit wear exports rose by 33% YoY as quantity declined by 8% YoY (prices up by 44% YoY). Share of knit wear increased by 2ppt YoY to 26%. Whereas share of bed wear declined by 1ppt YoY to 18% and readymade garments remained flat YoY at 20%.

▪ **Basic textile also jumped:** During 7MFY22, cotton cloth exports inclined by 24% YoY as quantity inclined by 13% YoY (prices increased by 10% YoY). Cotton yarn exports increased by 41% YoY as quantity was down by 3% YoY (prices increased by 46% YoY). Share of cotton yarn increased by 1ppt to 6% whereas cotton cloth remained flat YoY at 12%.

▪ **Textile Policy approved by Cabinet:** The Cabinet has approved the 5-year Textile Policy. The salient features of the policy are: (1) regionally competitive energy prices throughout the policy period, (2) enhance exports of higher value-added, with products and geographical diversification, (3) enhancing the economy of scales / production capacities, (4) capacity building in terms of infrastructure and supply chain development, marketing, compliances and R&D, and (5) formulating strategies to promote Made in Pakistan, facilitate international buying houses to establish offices in Pakistan and initiate mass level training programs especially for women and SMEs for skill development.

▪ **NML profitability to jump:** Nishat Mills is expected to post EPS of Rs6.01 in 2QFY22, up/down 155/36% YoY/QoQ due to higher sales (up by 30% YoY) and higher dividend income from MCB and DGKC amid higher cotton procurement cost as prices surged to record highs, both domestically and globally.

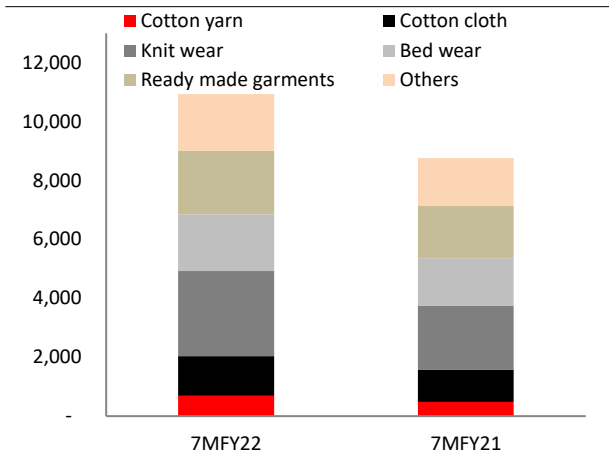
Outlook

▪ Looking ahead, we are optimistic as export markets are projected to continue growing along with strong demand for Pakistani textiles amid currency depreciation.

▪ In the long run, the sector's fate depends on (1) better cotton-seed quality, (2) improvement in value addition, (3) removal of capacity constraints and (4) investment in latest technology. We believe new textile policy would help improve sector's dynamics.

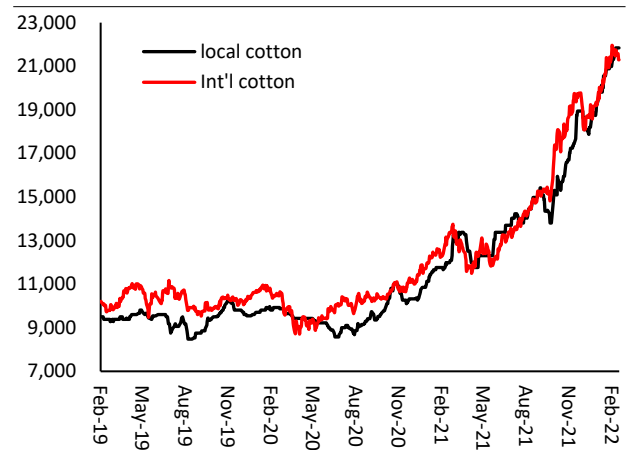
▪ Our top picks in the sector are ILP and NML.

Fig 1: 7MFY22 textile exports (US\$ mn)



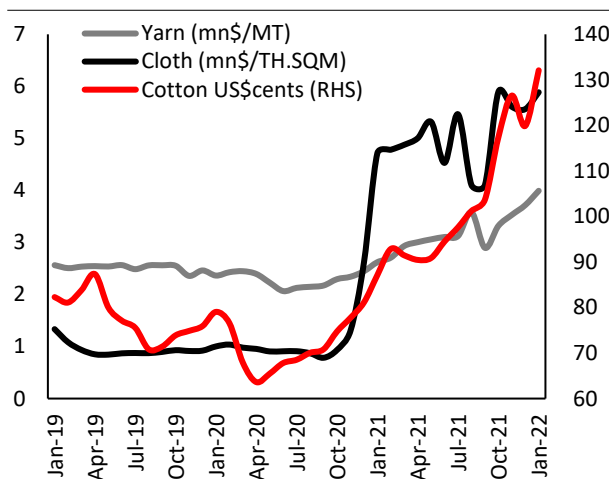
Source: PBS, Foundation Research, Feb 2022

Fig 2: Cotton prices climbing higher (Rs/40kgs)



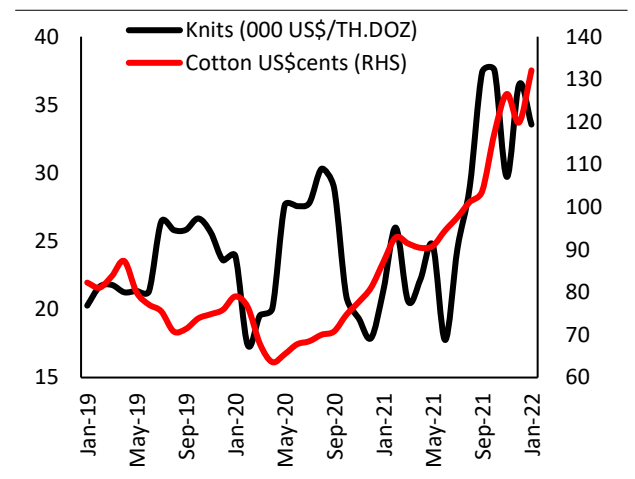
Source: PBS, Foundation Research, Feb 2022

Fig 3: Basic textile and cotton prices



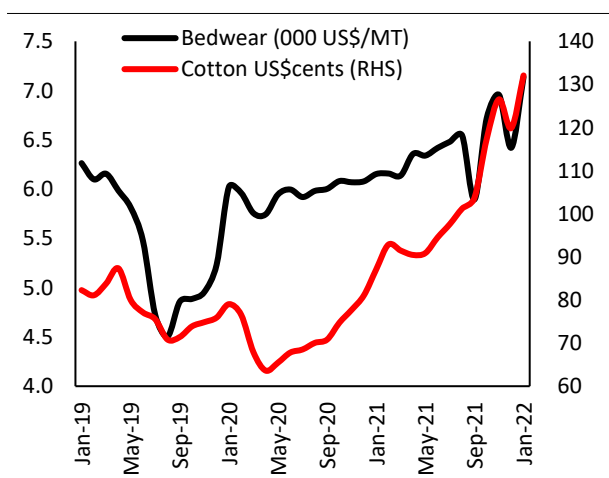
Source: Bloomberg, PBS, FSL Research, Feb 2022

Fig 4: Knitwear prices and cotton prices



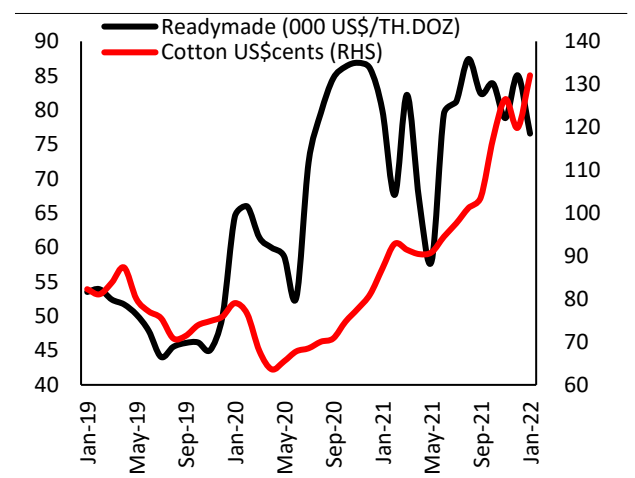
Source: Bloomberg, PBS, FSL Research, Feb 2022

Fig 5: Bedwear and cotton prices rose in tandem



Source: Bloomberg, PBS, FSL Research, Feb 2022

Fig 6: Readymade garment prices and cotton prices



Source: Bloomberg, PBS, FSL Research, Feb 2022

Abbreviations

FBR	Federal Board of Revenue
LT	Long Term
MoM	Month on Month
SBP	State Bank of Pakistan
YoY	Year on Year

Important disclosures:

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.